



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNIVERSITY OF UTAH HEALTH INSURANCE PLANS

of

Salt Lake City, Utah

as of

December 31, 2018



## TABLE OF CONTENTS

SALUTATION .....	1
<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
Period Covered by Examination .....	1
Examination Procedures Employed.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS .....</b>	<b>2</b>
<b>COMPANY HISTORY .....</b>	<b>2</b>
General.....	2
Dividends and Capital Contributions.....	2
Mergers and Acquisitions .....	2
<b>MANAGEMENT &amp; CONTROL INCLUDING CORPORATE GOVERNANCE ....</b>	<b>3</b>
Board of Directors.....	3
Committees .....	3
Officers .....	4
Holding Company.....	4
Transactions and Agreements with Affiliates.....	4
<b>TERRITORY AND PLAN OF OPERATION .....</b>	<b>5</b>
<b>GROWTH OF COMPANY .....</b>	<b>5</b>
<b>REINSURANCE .....</b>	<b>6</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>6</b>
BALANCE SHEET .....	7
INCOME STATEMENT .....	8
RECONCILIATION OF CAPITAL AND SURPLUS.....	9
<b>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....</b>	<b>10</b>
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>10</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>10</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>10</b>

May 8, 2020

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, a single state examination, as of December 31, 2018, has been made of the financial condition and business affairs of:

UNIVERSITY OF UTAH HEALTH INSURANCE PLANS  
Salt Lake City, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

Period Covered by Examination

This first full-scope examination of the Company was conducted by representatives of the Utah Insurance Department (Department) and covers the period of January 1, 2015 (inception of the Company), through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an

adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

There are no significant findings for inclusion in this report.

## **COMPANY HISTORY**

### **General**

The Company is a licensed non-profit health service insurance corporation as provided in Chapter 7 of Title 31A of the Utah Insurance Code. The Company is fully owned and controlled by its parent, the University of Utah (University). The Company was organized at the end of 2014 through a capital contribution from the University. The Company received its certificate of authority to offer health insurance in the state of Utah effective January 1, 2015, and commenced full operations in 2016 in the individual and large group markets.

### **Dividends and Capital Contributions**

Prior to the exam period the Company received \$2,000,009 of initial capital contributions from the University. The following capital contributions were received during the examination period:

2015	\$ 3,000,000
2016	11,000,000
2017	<u>8,000,000</u>
Total:	\$ <u>22,000,000</u>

There were no dividends paid or received during the examination period.

### **Mergers and Acquisitions**

There were no mergers or acquisitions during the examination period.

## MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

### Board of Directors

The bylaws of the Company indicate the number of directors shall be at least five (5) but no more than nine (9), a majority of whom are not inside directors. The following persons served as directors for the Company as of December 31, 2018:

<u>Name and Location</u>	<u>Principal Occupation</u>
Alert Lorris Betz <i>Salt Lake City, UT</i>	Interim Senior Vice President for Health Sciences <i>University of Utah</i>
Kevin Rory Hayden <i>Madison, WI</i>	Chief Executive Officer <i>Group Health Cooperative of South Central Wisconsin</i>
James Stuart Jardine <i>Salt Lake City, UT</i>	Attorney <i>Ray Quinney &amp; Nebeker</i>
Shawn Gill Freeman <i>Oakland, CA</i>	Retired
Patricia Ann Ross <i>Salt Lake City, UT</i>	Chief Strategy Officer, Chief of Staff <i>University of Utah</i>
Gordon Lynn Crabtree <i>Salt Lake City, UT</i>	Chief Financial Officer <i>University of Utah Hospital and Clinics</i>
Rod L. Betit <i>Washington, UT</i>	Retired
Michael L. Good MD <i>Salt Lake City, UT</i>	Chairman of the Board <i>University of Utah Health Insurance Plan</i>
Michael D. Bahr # <i>Highland, UT</i>	Business Operations Director <i>Public Employee Health Plan</i>

# - Appointed during the year ended December 31, 2018

### Committees

The bylaws of the Company require an executive committee, nominating committee and audit committee. The bylaws allow the formation of any other board committees as deemed appropriate by the directors. Committees and the respective committee members as of December 31, 2018 were as follows:

<b>Audit Committee</b>	<b>Marketing Committee</b>
Patricia Ann Ross (Chair)	Kevin Rory Hayden (Chair)
Gordon Lynn Crabtree	Rod L. Betit
Shawn Gill Freeman	James Stuart Jardine

<b>Executive Committee</b>	<b>Nominating Committee</b>
Michael L. Good MD (Chair)	James Stuart Jardine (Chair)
Gordon Lynn Crabtree	All Other Directors

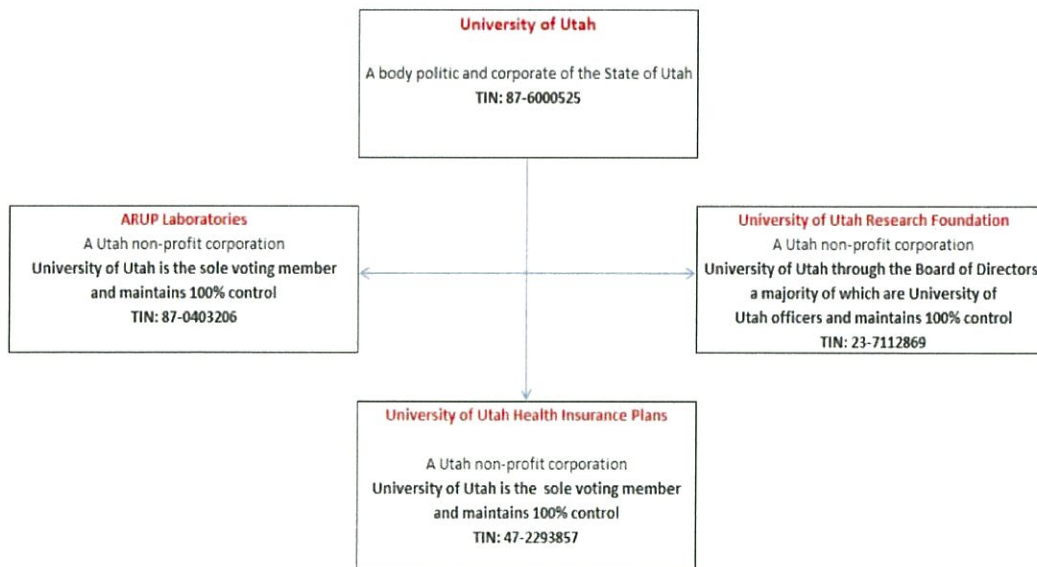
### Officers

The bylaws of the Company require the appointment of at least three principal offices, including Chief Executive Officer, Chief Operating Officer, Chief Financial Officer or Secretary. The following persons served as officers of the Company as of December 31, 2018:

<b>Name</b>	<b>Title</b>
Chad Jeffry Westover	Chief Executive Officer
James Reed Haisley	Secretary
Gordon Lynn Crabtree	Chief Financial Officer

### Holding Company

The Company is fully controlled by its parent, the University, a body politic and corporate of the state of Utah. The Company is part of a holding company as defined in Utah Code § 31A-16. An organizational chart illustrating the holding company system as of December 31, 2018, follows:



### Transactions and Agreements with Affiliates

Effective January 1, 2015, the Company and the University entered into an Administrative Services Agreement. The University performs certain administrative functions in connection with the delivery of health insurance and other health care

benefits to Company policyholders. Overhead expenses are allocated based on a claims volume methodology. During the period ending December 31, 2018, the University paid \$124,799,000 in administrative and medical expenses on behalf of the Company; the Company owed the University \$33,874,046 as of December 31, 2018.

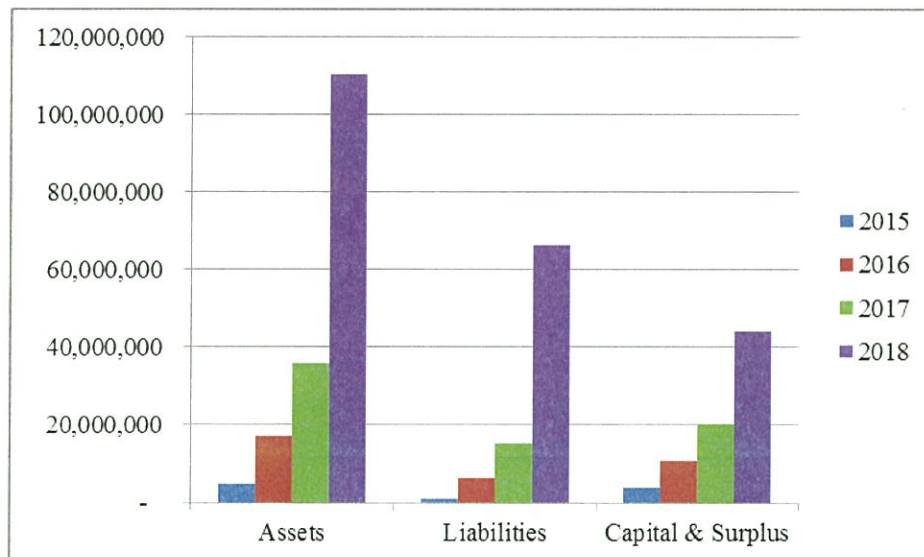
### **TERRITORY AND PLAN OF OPERATION**

The Company is currently licensed to conduct insurance business in the state of Utah and offers large group and individual health insurance. The individual health product is sold through the Federal Health Insurance Exchange. The Company started offering health insurance coverage as of January 1, 2016.

The Company also provides third party administrative services to employers with self-funded plans.

### **GROWTH OF COMPANY**

The Company's balance sheet has increased dramatically during the exam period, particularly in 2018, as shown below:



## **REINSURANCE**

The Company does not assume any reinsurance.

Effective January 1, 2018, the Company entered into a Reinsurance Agreement with Zurich American Insurance Company (Zurich), an authorized reinsurer, for its individual insurance product. Pursuant to the terms of the agreement, the Company retains the first \$600,000 of incurred losses per member per agreement period. Zurich coinsures 90% of incurred losses between \$600,000 and \$1,000,000 and 36% of incurred losses thereafter. This agreement is for a one-year term.

Effective July 1, 2018, the Company entered into a Reinsurance Agreement with Zurich for its large group product. Pursuant to the terms of the agreement, the Company retains the first \$600,000 of incurred losses per member per agreement period. Zurich coinsures 90% of incurred losses above \$600,000 up to a maximum of \$2,000,000 per agreement period. This agreement is for a one-year term.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.



UNIVERSITY OF UTAH HEALTH INSURANCE PLANS  
BALANCE SHEET

as of December 31, 2018

<u>Assets</u>	<u>Current Year</u>
Bonds	\$ 38,009,195
Preferred stocks	7,572,032
Cash, equivalents and short-term investments	29,693,144
Investment income due and accrued	252,753
Uncollected premiums and agents' balances in the course of collection	527,269
Accrued retrospective premiums and contracts subject to redetermination	34,337,790
Amounts receivable relating to uninsured plans	182,112
Total assets	<u>\$ 110,574,295</u>
 <u>Liabilities, Capital and Surplus</u>	
Claims unpaid	\$ 16,372,692
Aggregate health policy reserves, including medical loss ratio rebate	5,403,091
Premiums received in advance	2,458,543
General expenses due or accrued	992,924
Current federal and foreign income tax payable, including interest	7,270,000
Amounts due to parent, subsidiaries and affiliates	33,874,046
Liability for amounts held under uninsured plans	113,936
Total liabilities	<u>\$ 66,485,232</u>
Gross paid in and contributed surplus	24,000,009
Unassigned funds (surplus)	20,089,054
Total Capital and Surplus	<u>44,089,063</u>
Total liabilities, capital and surplus	<u>\$ 110,574,295</u>

UNIVERSITY OF UTAH HEALTH INSURANCE PLANS  
INCOME STATEMENT

for the Year Ended December 31, 2018

	Total
Net premium income	\$ 181,141,182
Total revenues	181,141,182
Hospital and Medical:	
Hospital/medical benefits	91,222,082
Outside referrals	1,508,323
Emergency room and out-of-area	20,291,598
Prescription drugs	21,946,258
Aggregate write-ins for other hospital and medical	22,065
Subtotal	134,990,326
Less: Net reinsurance recoveries	366,652
Total hospital and medical	\$ 134,623,674
Claims adjustment expenses	2,664,413
General administrative expenses	14,263,293
Total underwriting deductions	151,551,380
Net underwriting gain or (loss)	29,589,802
Net investment income earned	1,935,506
Net realized capital gains (losses)	(2,584)
Net investment gains (losses)	1,932,922
Aggregate write-ins for other income or expenses	1,655
Net income or (loss) after capital gains, before federal income taxes	31,524,379
Federal and foreign income taxes incurred	7,270,000
Net income (loss)	\$ 24,254,379

UNIVERSITY OF UTAH HEALTH INSURANCE PLANS  
RECONCILIATION OF CAPITAL AND SURPLUS

2015 through 2018

	2015	2016	2017	2018
Capital and surplus, December 31, prior year	\$ 2,000,644	\$ 3,827,739	\$ 10,649,094	\$ 20,470,198
Net income	(1,184,476)	(4,169,574)	1,821,104	24,254,379
Change in net unrealized capital gains (losses)	11,571	(9,071)	-	(606,827)
Change in net deferred income tax	-	-	-	-
Change in nonadmitted assets	-	-	-	(28,687)
Surplus adjustments: Paid in	3,000,000	11,000,000	8,000,000	-
Capital and surplus, December 31, current year	<u>\$ 3,827,739</u>	<u>\$ 10,649,094</u>	<u>\$ 20,470,198</u>	<u>\$ 44,089,063</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as of December 31, 2018 as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENTS**

There are no comments on financial statement items as of December 31, 2018 as a result of the examination.

## **SUBSEQUENT EVENTS**

There were no material subsequent events noted for inclusion in this report.

## **ACKNOWLEDGEMENT**

T. Michael Presley, FSA, MAAA, of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. Joe Detrick, AES, CISA, CPA, CFE, of Jennan Enterprises, LLC, performed the information systems review. Malis Rasmussen, MSA, CFE, SPIR, Chief Examiner, supervised the examination. In addition, Luze Pierre, Financial Examiner, participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Natasha Robinson". The signature is written in a cursive, flowing style.

Natasha Robinson, CFE, PIR  
Examiner-in-Charge  
Utah Insurance Department